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Twelve years ago, on December 3, 1947, I had the honor of addressing the 52nd Annual Congress of American Industry, held by your Association. My subject on that occasion, as now, was, the Soviet Challenge. I then stated that this was a challenge to the United States "to prove that the system of free men under law can survive."

This is still a challenge. Only a few weeks ago Khrushchev amiably advised us, as he left the United States, that Communism would in time take us over.

In 1947 the Soviets were basing their hopes - not so much on the economic and industrial might of their own system, as on their forecast of the imminent collapse of our free enterprise society.

Then it was Stalin, Molotov and Vishinsky who warned us and told the world that our Marshall Plan was merely a means of unloading excess commodities and capital to avoid an impending American crisis.

These old Soviet leaders have gone and so have gone many of their arguments. Their successors have largely abandoned the thesis of any early demise of capitalism due to its own defects. Now they boast that over the years, say by 1970, they will surpass us in total industrial output.

This is a boast which is not likely to be realized unless we "rest on our oars." What is of more immediate concern to us is the fact that the Soviets are using their growing industrial strength, which is still less than one-half of our own, largely to promote their national power aims rather than to give a fuller life to their own people. We are doing just the opposite.

A decade ago Moscow was speaking to us in threatening terms because we were giving aid overseas to meet the danger of economic breakdown and communist takeover in large parts of Europe. Now they propose to compete with us on a worldwide basis in the field of overseas aid and trade, hoping to win over the uncommitted nations of the world.

Then, though they had no atomic bombs, the Soviet were using the threat of their great conventional forces to help undermine Greece and Turkey and then later to menace the Free World in Berlin and Korea.

Now, while they preach coexistence and economic and industrial competition with the West, they also, on occasions, this week in fact, rattle the threat of ballistic missiles and give their support to the "hard core" Communists in their uneasy European satellites.

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As representatives of this 64th Congress of American Industry, you have a legitimate interest in what your most aggressive foreign competitor, the Sino-Soviet Bloc, is doing and planning. Today this is not because this competitor is seriously threatening your domestic or even your foreign markets. It is rather because the pattern of this competitor's conduct and the impact of the Bloc's growing industrial power may have an important influence on the future direction of American industry and of our economy.

A wise European remarked to me the other day that in his opinion, the danger of war had receded, but that the dangers from international communism in other fields had increased.

In saying this he had two major thoughts in mind:

First, that the military situation would become a nuclear stalemate, the United States with its allies and the Sino-Soviet Bloc each having a sufficient supply of nuclear weapons and the means of

delivery to inflict unacceptable damage on the other.

Second that, under these conditions, the competition might shift, at least for a time, from the military to the political and economic sectors with the Free World and free enterprise competing for the uncommitted world against all forms of penetration by international communism. Such competition, short of war, is the more likely because Khrushchev, while he desires to inherit the earth, does not wish it to be a world devastated by nuclear weapons, -- also he thinks he is doing quite well as events are now developing.

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It does not require recourse to secret data to reach the following conclusion: That over the immediate future both the United States and the Soviet Union will be continuing to equip themselves with nuclear weapons and with the means of delivery, whether by guided missiles or aircraft, adequate to constitute a grave deterrent to war by either side. The impact of this mutual growing capability is already having its effect on the international scene.

However, for the deterrent to be effective, other conditions must be met; among them are the following:

(1) The United States and its allies of the Free World must continue to maintain a military defensive and retaliatory power such

that no increase in Sino-Soviet military power could lead the latter to believe that they had gained clear superiority over us.

(2) Regional strife among powers having no nuclear capabilities must be quarantined or limited. History has shown us small wars breed great wars and chain reactions with unforeseen consequences may result from them.

(3) There must be no doubt in the minds either of the leaders in Moscow or Peiping that the initiation by them of a war of aggression would be met with adequate force. Hence we must make the strength of our military position, and our readiness to use it in defense against communist aggression, so clear that there can be no misunderstanding on the part of the Soviet. Some wars have come from vicious intent and were a calculated act; more have come from miscalculations.

I doubt whether the leaders of international communism misunderstand or miscalculate our posture today. They must not do so tomorrow. The prevention of misunderstanding is a continuing task. We must not slip into an attitude of complacency which might lead the Communists to have doubts about our intentions. They must not be allowed to feel that the threat of nuclear blackmail could be used to push us out of any position that is vital to our security, on the mistaken theory that it is not worth the risk of a nuclear conflict.

Today the Soviets with a Gross National Product and an industrial capacity less than one-half of ours are nevertheless allocating to the national power sector of their economy, including military hardware and industrial plant for war purposes, an effort roughly equivalent to ours.

If they continue their industrial growth rate, at some eight to nine per cent per annum as is likely, the Soviets will be able, if they choose, substantially to increase their military effort.

Certainly until a system of controlled disarmament is devised, we cannot safely relax in the field of our military strength as the primary deterrent to the danger of communist aggression.

The secret of Soviet economic progress is simple. They plow back into investment a large and growing share of their total annual production. The Kremlin leaders direct about 30 per cent of GNP into capital outlays, while we in the United States are content with 17 - 20 per cent.

The commanding role of investment in Soviet economic growth is dramatically illustrated by their Seven Year Plan, which runs through 1965. Capital investment in industry for the year 1959, the initial year of the plan, will be approximately equal, measured in dollars, to industrial investment in the United States.

Furthermore, the Soviets absolute volume of investment in such productive areas as the iron, steel and nonferrous industries, as well as in machinery manufacturing, will be substantially greater than that of the United States.

These massive investment expenditures are being fed into an industrial system whose output in 1958 was only about 40 per cent of the United States. Under such high pressure fueling, the Soviet industrial plant can hardly fail to grow considerably faster than that of the United States.

Turning to the consumers field, the picture is entirely different. While they have been slightly increasing the production of consumer goods over the past few years, their consuming public fares badly in comparison with our own. In 1958, Soviet citizens had available for purchase about one-third of the total goods and services available to Americans. For example, the Soviets were then producing on an average one automobile for every 50 we produced.

While there are no adequate figures to compare our production of luxury goods with that of the Soviet, it is certainly true that here Soviet production would only be a small percentage of our own.

Certainly it is true that a major thrust of our economy is directed into the production of the consumer type of goods and services,

which add little to the sinews of our national strength. On the other hand, the major thrust of Soviet economic development, and its high technological skills and resources, are directed toward specialized industrial, military and national power goals.

For a contestant engaged in a vital economic race with a lean and well-muscled opponent, we persist in carrying a prodigious burden of fat on our backs.

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Soviet postwar economic expansion, as well as its advances in the military field, have also permitted the Kremlin to adopt an aggressive program in the less developed countries of the Free World. In these newly emergent and fragile nations, the Soviet leaders have been advancing their cause by a combination of economic penetration, political warfare, and subversion.

The basic strategy of international communism, with its primary emphasis on measures short of war, has remained remarkably unchanged since the death of Stalin. So too have its objectives.

These were never more bluntly stated than in Khrushchev's recent speeches.

Obviously referring to the phrase attributed to him, "We will bury you," he explained last summer that when he said that

communism would be the graveyard of capitalism, he did not mean that communists would take shovels and start digging; "History," he said, "would take care of capitalists." They too, he suggested, would become museum pieces, and added that, "If there were a God and he could act, he would take a good broom and sweep you out."

Let us have a look at the brooms Khrushchev proposes to use.

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First, economic penetration of the uncommitted world.

Quick industrialization is the goal of the new and emerging countries, as well as of many of the older countries which have been backward industrially. It is no answer to such aspirations to suggest that the type of industrialization they want is premature, unwise or over-costly. They will continue to seek it.

The example of the Soviet Union attracts them. Here they see a nation which, in the course of 30 years since their revolutionary growing pains ended about 1928, has achieved second place in the world industrially.

The newly emerging States want results. They want them now. The Soviet promise them the moon with a few Migs thrown in. They understand full well that the Soviets first got a rocket to the moon and some of them are deluded by the belief that the Kremlin can also

give them a painless industrial transformation. Soviet propaganda tells them this is so and that communism will deliver the goods. It is a potent argument. You can expect to see the Soviets continuing to use it in the four corners of the earth.

In several cases they have been able to get the jump on us; partly because of the procedures required under our laws; partly because we, rightly, have never conceived this to be a competition to see who can give the most the quickest but rather how one can best contribute to sound economic growth.

The Soviets, abetted by the Chinese Communists and their European Satellites, can easily maintain their present level of aid and trade and in the coming decade they may well divert larger absolute amounts to woo the uncommitted areas of the world. As the Soviet and Chinese Communist industrial production advances, the threat of the spread of communism through trade and aid into uncommitted areas of the world will be proportionately increased.

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Another broom which international communism proposes to use against the Free World is political warfare.

Here they have an aggressive campaign based on a series of very positive programs with political, economic and cultural objectives.

It involves the radio and other means of mass communication, as well as the written and spoken word; subtle political intrigue based on the control and manipulation of communist parties and communist fronts on a worldwide basis.

It includes the use of various "cover" organizations which pretend to represent youth, labor, professional groups and veterans. They become the agencies for spreading communist doctrine throughout the Free World. In their subversive arsenal, they also have organizations which use the slogans of "peace," friendship and coexistence.

This challenge is being pressed forward under the growing threat of Soviet industrial, scientific and technical advances and under the cover of the Kremlin's posture of coexistence. It is a challenge which is the more dangerous because it is cleverly and clandestinely conducted, and even the Communist role is concealed as far as possible.

To meet this threat we must understand it. To penetrate the subtleties of the Soviet political, economic, and psychological drive is harder to do than to understand the military threat. Weapons of war are visible, tangible, and comprehensible. The impact of an idea, of a subversive political movement, of a disguised economic

policy is more subtle.

International communism is a ruthlessly proselytizing force. It seeks to make converts of men and women wherever the opportunity permits; just as it does not hesitate to make "prisoners" of them as it has done in Hungary. It has lost none of its faith in its worldwide mission, as outlined by Lenin and Stalin and vigorously proclaimed by Khrushchev as he left our shores a few weeks ago. This mission continues to be the domination of the entire Free World, with primary emphasis today on the new and uncommitted nations.

The communists have no reason to be confident that they have an adequate answer to our military retaliatory power. They do feel, however, that they still have the ability to close off their own frontiers, their air space and their rigidly controlled society to ideas from abroad. They have their Iron Curtains not only on their frontiers but within the country. They even try to draw down this Curtain within the minds of their own people.

Recently we see some evidence here and there of a slight raising of their curtain. There is somewhat less jamming and a wider play of American news items in the Soviet press. If this were to continue and develop it would be one of the most encouraging signs in our relations with the USSR. It would be an act, a deed on their part,

as contrasted with mere pronouncements about coexistence.

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A third broom the Soviets have been subtly using against us is the penetration and subversion of governments which do not "cooperate" with Moscow or Peiping. A classical example here was Czechoslovakia, more than ten years ago. The same techniques are used today. Popular front governments are still being planned by Moscow for several countries which today have close relations with us.

"Nationalism" as a slogan for the breaking of the ties of friendship between us and the countries of this Hemisphere was the line given the Latin American communist leaders who attended the 21st Party Congress in Moscow last February. Details for the execution of this policy were then outlined to these leaders and some of the fruits of this planning can be seen today in Panama, Cuba, and elsewhere in this Hemisphere.

It is Moscow's desire to move very secretly in this field and not to allow its hand to be shown as directly supporting local Communist parties either in this Hemisphere or elsewhere. Recently Peiping has not been so subtle. The Chinese Communists, who have the same long-range objectives as the Soviets, are acting in their own area of particular interest with a heavy, blundering hand. In fact,

nationalistic feeling has been turning against Peiping in many countries around the periphery of Communist China. This must make the more professional operators in the Kremlin cringe.

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In these comments, I have tried to give some idea of the nature and dimensions of the Soviet challenge in the military, political, and economic fields.

My conclusion is that even if a nuclear stalemate should tend to lessen the immediate danger of war, we would still be faced with a serious challenge. Furthermore, if, over the years the Soviet military outlays should take up a smaller ratio than today of their Gross National Product, the Kremlin might give added emphasis to its non-military penetration program. This would add to the danger of its policies under "peaceful coexistence" as the Kremlin now preaches it.

Certainly we have not answered the challenge if we limit ourselves merely to meeting the Kremlin's military threat.

These facts should bring us to a sober appraisal of the best means of marshalling our very great assets and capabilities -- in concert with our like-minded friends and allies. Today the Free World has a wide margin of industrial superiority over the Communist world.

Are we applying this superiority in the proper way to the proper ends?

Secretary Herter, in an eloquent address to the Foreign Trade Council on November 16, gave one answer to this question. He said:

"We have, of late, been too absorbed, I feel, in the mere enjoyment of a prosperous life behind our defensive curtain of nuclear power. We must realize instead that the fateful competition with communism has placed a first claim on the energy and interests of us all. That means subordinating our private interests to the paramount public interest. It also means using our economy less for the things which do not really matter, and more for the things which do -- for the uses which would train and inform our minds, promote the health of our society and keep our country free."

I know of no group of men who have a better background than you for assessing the implications of the course that our economy is taking in relation to that of the Soviet Union, and the requirements which our economy must accept to meet the communist challenge.

This we must do within the framework of freedom - not regimentation as practiced in the Soviet Union. It must be done with due regard for the legitimate aspirations of our people for a fuller

life - not by asking them to accept the drab existence imposed on the Soviet people. However, as Mr. Herter said, the fateful competition with communism has a first claim on our energies and our interests and calls for subordination of our private interests to the paramount public interest.

You, yourselves, with your wide interests and responsibilities could do much to help make this society of ours become more responsive to the challenge of the day.